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A New Socialism?

A FUTURE FOR SOCIALISM
John E. Roemer
Harvard University Press, 1994. viii + 178 pgs.

John Roemer is a brave man. Few American economists today are prepared to defend full-fledged socialism; after the Soviet Union's collapse, even Robert Heilbroner, that quintessential leftist, had words of praise for Ludwig von Mises. Roemer, an economist of unquestioned technical competence, breaks with the current consensus. His book has already won praise from academics saddened by the fall of the Worker's Paradise.

Roemer does recognize that "the Soviet model of socialist society is dead"; but, stalwart in his faith, he does not despair. "[T]hat does not mean that other, untried forms of socialism should be buried along with it" (p. 1).

To abandon socialism because of so temporary a setback as Communism's collapse would be to ignore a basic truth. "The Bolshevik revolution was, I think, the most important political event since the French revolution, because it made real to hundreds of millions or perhaps billions of people, for the first time since 1789, the dream of society based on a norm of equality rather than a norm of greed" (p. 25).

A QUARTERLY REVIEW OF BOOKS, BY DAVID GORDON

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Faced with so eloquent and moving a defense of a regime based on cold-blooded mass murder, I was reluctant to subject Roemer's inspiring vision to analysis. But duty calls.

Roemer has had a bright idea. Why not save socialism by abandoning what that term usually designates? Thus, socialists need no longer support public ownership of the means of production. If public ownership has failed, and public ownership is equated with socialism, then socialism has failed. But this would end the dreams of millions, if not billions. Instead, since the pursuit of "equality" defines the "dream of society," even the once hated market may be used in the struggle.

But equality of what sort? As Roemer sees matters, socialists aim at "equality of opportunity for: (1) self-realization and welfare, (2) political influence, and (3) social status" (p. 11). He glides quickly over his three desiderata, evidently taking their goodness to be self-evident. Self-realization, we learn, "is a specifically Marxist conception of human flourishing" (p. 11). Under it, people develop their talents in a way that gives meaning to life.

So vague a goal seems hardly suitable for a political system—who determines which abilities are to be realized, and by whom?—but minor matters such as this do not faze Roemer. He does not bother to characterize welfare in any specific way, nor does he explore possible conflicts between self-realization and welfare. What if some people would be happier *not* developing their talents in the fashion the Commissars specify? Judging by his praise for the wisdom of Zhou Enlai, one of our century's foremost mass murderers (p. 130), I rather suspect that individual preferences would not count for much.

But this, admittedly, is speculation. Giving Roemer the benefit of every doubt, however, his principles strike one as radically implausible. His first principle mandates nothing at all about self-realization or welfare, even putting aside the vagueness of these terms. What his rule requires is *equality of opportunity to attain* self-realization and welfare. A slave society in which all

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were equally oppressed, then, would outrank one with a hereditary aristocracy, even though in the latter everyone had a high level of self-realization and welfare. The *actual* level of self-realization does not matter: all that counts is that everyone have the same chance at this vague and impalpable goal. Given this principle, Roemer's pining for the glorious days of economic growth under Comrade Stalin becomes understandable (p. 43).

Roemer pines for the glorious days of economic growth under Comrade Stalin.

And just why should everyone have the opportunity for equal political influence and social status? Roemer does not tell us, although, commendably, he recognizes that conflicts may arise among his three principles. He does not specify a ranking for the rules in case conflict does arise, but that of course would be asking too much.

Roemer's principles raise a more fundamental question. Why is equality (of welfare, self-realization, influence, or whatever) desirable at all? As must never be forgotten, Roemer is a high-powered intellectual, "brilliant" in the opinion of the eminent Warren Samuels; so he is not without resources. He notes that "political philosophers [working] on egalitarian theories of justice" have established the truth of the egalitarianism on which socialism rests. In particular, John Rawls's *A Theory of Justice* "accomplished the feat of convincing a large number of social scientists that egalitarianism was not simply a 'value judgment' that people might or might not hold according to their taste but was, rather, a view of what social arrangements were right, a view that any rational, honest person had to accept" (p. 27).

Here then is the scintillating argument offered by our talented author to support egalitarianism. Political philosophers, especially Rawls, have established it. Period.

Incidentally, he does not even succeed in getting right his account of Rawls. Rawls does not claim that any "rational, honest person" would adopt his theory; on the contrary, his theory proceeds from what he terms a reflective equilibrium among certain moral intuitions. Rawls does not go so far as to make holding these intuitions a criterion of rationality. But accuracy is of little account; after all, the future of socialism stands in the balance.

Some backwards people may prefer to found political philosophy on the right of self-ownership. This

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Accuracy is of little account; after all, the future of socialism stands in the balance.

principle, however much it may offend egalitarian sensibilities, has at any rate the merit of clarity. But to adopt it, Roemer thinks, would be to fall victim to a drastic mistake. "Libertarians use the postulate of self-ownership to deduce the injustice of redistributive taxation; those Marxists for whom self-ownership is the foundation of the attack on capitalism must therefore explain why they reject libertarianism's animosity toward the welfare state"(p. 16). Self-ownership must thus exit the scene: were it to be accepted, it might lead to the rejection of socialism, which is of course absurd. Q.E.D.

Perhaps, though, I have been overly harsh in assessing Roemer. He is by training an economist, not a philosopher; so whatever the problems of his forays into political theory, his book may have value for its contributions to economics. And indeed, Roemer makes some useful points. Surprisingly for a socialist, he maintains that Friedrich Hayek got the better of Oskar Lange in their famous debate over socialist calculation. Lange endeavored to solve the challenge posed by Mises: lacking a price system, a socialist economy cannot allocate resources efficiently. Lange ingeniously suggested that a socialist economy could mimic the market. Why not use the market to achieve socialist goals?

To this, Hayek had in Roemer's view a convincing reply: "to the extent the planners would require anything (other than profit maximization) of the firm managers, the managers could not then be held responsible for losses the firms incurred; thus, any interference with the market by the CPB [Central Planning Board] would let the managers off the hook and, in effect, place all responsibility on the planners for the outcome. This point brilliantly foreshadows the political sociology of the soft budget constraint as developed by Janos Kornai . . . some thirty years later" (pp. 31–32).

Further, Roemer usefully criticizes socialists who propose that firms be managed by the laborers who work in them. As Roemer notes, firms of this type may be reluctant to take risks that threaten the discharge of some of these managers. "Indeed, it is possible that adopting the form of labor management for all firms in an economy could have the result that everyone is worse off than

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they would be in an economy with mixed management firms" (p. 123).

If the socialist calculation argument of Mises and Hayek works, and if worker management is not the pearl of great price, why not abandon socialism altogether? Oh, but this would be to ignore the surpassing philosophical merits of egalitarianism, which we have already had occasion to examine. What, then, is Roemer to do? His philosophical views mandate socialism, but economic analysis speaks against it. How can he restore consistency to his beliefs?

He does so by advocating a new version of market socialism, which incorporates even more market features than Lange's plan. In Roemer's scheme, firms receive capital from publicly controlled banks. Each bank would monitor the firms in its group; by withdrawals or increases in the supply of capital, it would impose economic discipline on its firms. Thus, the problem, in Roemer's view, that has plagued hitherto existing market socialism at last is solved. No longer are the firms in a market socialist order subject to arbitrary interference from the state: instead, they are subject to publicly controlled institutions whose independence is constitutionally guaranteed. If stockholders can control managers in a capitalist market, Roemer asks, why cannot banks do so as well under market socialism?

Roemer, as it seems to me, errs in thinking that the "agency problem" poses the principal difficulty for market socialism. Suppose that he is right that in his system firms will do as bankers dictate. What in his system channels money from banks unskilled at meeting the wishes of consumers to those better able to do so? He asks: how do investors in a capitalist economy get managers to do their bidding? But he does not ask: how does the stock market promote efficiency in investment?

And what Roemer grants with one hand he withdraws with the other. In his view, the state ought to play a large role in directing investment. But does this not bring back exactly the problem that, Roemer agreed, fatally flawed Lange's system, the "soft-budget constraint"? As he says himself: "A basic challenge to any model of investment planning is that some political process must be used to choose the investment targets, and this opens up the Pandora's box of rent-seeking, the wasteful use of resources for the benefit of interest groups who aim to influence the outcome of that process. It is beyond the scope of this essay to engage this challenge" (p. 106).

Yet we have not yet reached the most incredible part of Roemer's argument for socialism. As

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mentioned earlier, Roemer is a technically accomplished economist; and he constructs a model of a market socialist economy which outperforms a rival capitalist model (pp. 60ff). But his "argument" simply assumes the key points he needs to establish.

He postulates that the rich are more likely to generate a "public bad" than the poor: hence a system that restricts the growth of the former will promote the general welfare.

Suppose, using Roemerian tactics, one wishes to show that socialism fails. One need only construct a model, one of whose assumptions is that the socialist planners are a gang of homicidal maniacs, while capitalist entrepreneurs are decent and economically rational. One could quite easily "prove" the capitalist regime superior; but I hardly think Roemer would find *this* argument convincing. And yet its assumptions are considerably closer to reality than those of the models our author has devised.

Roemer's technical tools thus avail him little in his endeavor to promote socialism. He offers a "future" for socialism only in an Orwellian sense. ❖

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A Libertarian's Plea

SIMPLE RULES
FOR A COMPLEX WORLD
Richard A. Epstein
Harvard University Press, 1995.
xiv + 361 pgs.

Richard Epstein's excellent book is packed full of arguments which continually engage the reader, even if they do not always compel assent. He constructs a powerful case for a free-market social order, with a strictly limited state.

At times, Epstein compromises with the state more than he should. Nevertheless, this book ranks among the firmest defenses of private property ever written by an American academic.

Epstein starts in an unusual place for a work of legal theory, the widespread public perception, shown for instance by lawyer jokes, that there "is too much law and too many lawyers" (p. ix).

Lawyers, most people believe, burden the economy with costly and often frivolous suits; but no remedy seems in sight, given the complexity and detail of legal regulations. Given that there is too much law, there are not too many lawyers: we cannot cut down on

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the number of lawyers without a drastic simplification of the law. It is this far from simple task that Epstein here undertakes.

In doing so, Epstein shows himself well aware of two objections that threaten to derail his project. First, it would be easy to devise very simple rules that would be utterly deplorable. "If simplicity is the only goal of a legal system, I can think of just two rules for determining the outcome of a lawsuit that would satisfy a criterion of ultimate simplicity. The first of these rules says that the plaintiff always wins . . . if you don't like that rule, there's always its mirror image, which says that the defendant always wins" (p. 32). Simplicity, then, does not alone suffice.

Epstein starts in an unusual place for a work of legal theory: that there "is too much law and too many lawyers."

If so, is it not then open to a defender of complex rules to enter a demurrer? Though complexity may count against a rule, may this not be outweighed by other factors? How can one tell whether a legal system is *too* complex, absent an overall judgment on the goodness of the system?

Epstein has his reply ready to hand. He is not after absolute simplicity: rather, what he seeks is governmental rules that generate more incentives than they impose costs. "The central trade-off that must be examined at all times is this: does the creation of some administrative structure . . . also create some desirable incentives for individual behavior such that the gain from *this* particular administrative expenditure is justified in terms of the overall improvement in incentive structures" (pp. 33–34)?

Epstein's real goal, then, is a set of efficient rules, and simplicity is no more than a means to this end. Nevertheless, it is a vital means, since complex rules are liable to be inefficient. Epstein constructs an excellent case for simplicity in the law; but I wish he had at least mentioned the once-famous essay of Rudolf von Jhering, *The Struggle for Law*. Jhering maintained that the assertion of rights was essential to the development of law; thus, legal battles were to be desired rather than shunned. Epstein would I think have found in this essay a valuable counterpoint to his own line of thought.

If, then, what Epstein principally seeks is efficiency, we must know what he means by that. Here there is little mystery: he understands it in a way analogous to neoclassical

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economists' characterization of the market in equilibrium. In particular, the market in equilibrium is Pareto optimal: no change can be made which will make at least one person better off while making no one else worse off. This notion of efficiency underlies the variant of utilitarianism which Epstein defends, leading to difficulties in his argument. But of these more later.

The first of Epstein's rules is for those familiar with the Lockean tradition a familiar landmark: "individual self-ownership" (p. 54). He defends this principle against the competing view of John Rawls. According to Rawls, people do not deserve their natural abilities, which are from the moral point of view arbitrary. Epstein rightly rejects Rawls's opinion that abilities and talents are "collective assets."

Epstein proceeds to defend a "first possession" rule for the acquisition of property and follows with strong support for freedom of contract. He notes a fact familiar to all students of Austrian economics: the parties to an exchange are, from their own point of view, better off than they would otherwise have been. If not, no voluntary trade would take place. Thus, assuming no effects on third parties, a voluntary exchange always increases utility. Quite the contrary, of course, with a coerced exchange.

But Epstein goes too far when he says this: "Theft arises when one person takes something without the consent of the other . . . it is at best a constant-sum game, for what one party gains the other necessarily loses" (p. 76). Of course Epstein is right that the stolen item does not multiply. But what is at issue is utility, and it does not at all follow that no act of theft can increase utility. What if the thief derives more utility from the good than its rightful owner? This objection presupposes that interpersonal comparisons of utility can be made, which is eminently questionable—but Epstein does allow them, at least if made in a non-rigorous fashion (p. 142).

In effect, Epstein says that the state may take your property so long as you're not left too much worse off.

Here I think Epstein would have profited from attention to Murray Rothbard's fundamental "Toward a Reconstruction of Utility and Welfare Economics." Rothbard disallows interpersonal comparisons: he makes the more limited, and more defensible, claim that in any coerced transfer, we cannot determine that overall utility has increased.

So far, though, our objections to Epstein have been mere matters of

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detail. Things change, unfortunately, with his fifth rule, particularly as applied to the government. Our author does not forbid all coerced exchanges. Sometimes necessity demands that one seize the goods of another. If such a case arises, compensation is owed the person whose property is taken, so that he is restored to a position as well off as he was before the taking.

Applied to governmental action, Epstein's rule works in this way: "Often the government needs to obtain material resources from individuals in order to supply services to the public at large. . . . [H]oldout and coordination problems preclude that consensual solution for certain key assets, such as specific parcels of land needed for the construction of a fort or a public road. This problem is best met by government taking with payment of just compensation. Ideally, the individual citizen is left indifferent to the loss" (p. 128).

All of this seems to me radically unsatisfactory. Suppose that someone owns a parcel of land that the government needs in order to build a road. (Why, incidentally, must roads be provided by the government?) If the land had to be purchased, the owner could secure a large sum of money by threatening a holdout. If the land is taken, and its owner compensated, in what sense is he rendered indifferent to the loss? He has been deprived of his profit-making opportunity. The "take-and-pay" rule that Epstein favors does not fulfill the principle, basic to his position, that governmental actions be Pareto superior. Only on an etiolated notion of compensation is the owner left equally well off.

What Epstein here in effect says is that the state may take your property, so long as you are not left too much worse off. Is it not a sad commentary on our times that, to the likes of Senator Biden, this counts as a "right-wing extremist" position on the takings issue?

Obviously, this is neither the time nor place to offer a treatment of cases of necessity. I shall confine myself to two observations. In those cases of necessity that strike one intuitively as calling for remedial action (e.g., the person who demands from a victim of thirst in the desert a million dollar fee for a drink of water), something is going on of a morally dubious character other than so-called "strategic-bargaining." Second, if one does hold that it is wrong for someone, by taking advantage of a threat position to seize virtually all the gains from trade, it does not follow that he may be deprived of any gain at all.

After he presents his rules, Epstein applies them to a number of legal issues, including employment discrimination, product liability,

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and environmental protection. In all of the areas he treats, Epstein displays a formidable mastery of case law. He exposes to devastating effect the fallacies of governmental programs that often make almost everyone, including their intended beneficiaries, worse off.

Epstein's view must confront both non-utilitarian theories and more robust utilitarian accounts. Faced with a war on two fronts, can it survive?

In one instance, though, Epstein's discussion seems incomplete. In his excellent discussion of employment discrimination, he notes that sometimes what appears to be discrimination against certain groups is from the employer's point of view economically rational. Sometimes, e.g., an employer may find it profitable to hire a racially homogeneous workforce.

Epstein's point is well taken, but his discussion fails to speak to a key issue in the debate on discrimination. What about those who contend that discrimination is morally wrong, even in cases where it is economically rational? To answer them, a more robust moral theory is required than the "Pareto-optimal" brand of utilitarianism that Epstein professes.

As his last chapter, "The Challenges to Simple Rules," makes clear, Epstein disagrees; and it is here that I find myself most fundamentally at odds with him.

He contrasts the utilitarian system he favors with moral intuitions that lack a systematic basis. Since his theory usually arrives at the same conclusions as do the intuitions about justice, why not jettison separate resort to them? "Make way for Occam's Razor. If a smaller class of assumptions can be used to account for all the relevant results, why treat the intuitive sense of justice as the irreducible primitive of the system or even as an important side constraint" (pp. 319–20)?

Here Epstein erects an unreal antithesis. Why are unsupported intuitions the sole alternative to his theory? What about other moral theories (including intuitionism) of a non-utilitarian sort? Here once more attention to Rothbard and Robert Nozick would have helped.

And Epstein's theory is vulnerable to pressure from another direction. What about utilitarian theories that do not operate under the Pareto constraint that Epstein favors? Why should a change that greatly benefits a large number of people be ruled out simply because

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a few are made somewhat worse off? (Suppose circumstances make compensation impossible.) Why, on utilitarian grounds, should measures of this kind always be disallowed? Epstein's view must thus confront both non-utilitarian theories and more robust utilitarian accounts. Faced with a war on two fronts, can it survive?

If *Simple Rules For a Complex World* frequently rouses me to dissent, it is nevertheless a distinguished work that merits the attention of anyone interested in ethics and legal philosophy. ❖

The Small Matter of Truth

THE REVOLT OF THE ELITES AND THE BETRAYAL OF DEMOCRACY
Christopher Lasch
W.W. Norton, 1995. x + 276 pgs.

Christopher Lasch loved debate; and in *The Revolt of the Elites*, a collection of his essays published posthumously, he indicts the American upper and professional classes for abandoning public argument. The elites no longer have roots in their local communities. The issues of public life no longer engage them; spurning contact with their fellow citizens, they move from place to place, concerned only with their own gratification.

His concerns emerge clearly in the book's best essay, "The Common Schools." The essay examines the thought of Horace Mann, the leading promoter of public education in 19th-century America. Lasch credits Mann with sincere concern for public enlightenment and welfare. Yet the movement he supported has led to ruin. "Here is our puzzle, then: why did the success of Mann's program leave us with the social and political disaster he predicted, with uncanny accuracy, in the event of his failure? To put the question this way suggests that there was something inherently deficient in Mann's educational vision, that his program contained some fatal flaw in its very conception" (p. 148).

Lasch locates the fatal flaw in Mann's aversion to politics. Conflict over ideas and policies did not, for him, lie at the essence of civic life. Quite the contrary, conflict was to be shunned; the schools offered a haven from the havoc of political life. Mann termed the intense presidential campaign of 1848, for example, a "Saturnalia of license, evil speaking, and falsehood" (p. 153).

To avoid demeaning conflict, in Mann's view, the schools must confine themselves to allegedly

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non-controversial views. In particular, clashing religious dogmas have no place in the school; even better, sectarian religions should be excluded altogether from public life. This view did not stem from Mann's aversion to religion. Quite the contrary, he was a devout adherent of those tenets of Christianity common to all believers. By teaching nondenominational Christianity, the schools could insure universal uplift.

The truth that there are no truths, the certainty that all is uncertain: I cannot think that this is the formula for curing rootlessness among the elites.

But just here is where Lasch's key difficulty arises. "The real objection is that the resulting mixture is so bland that it puts children to sleep instead of awakening feelings of awe and wonder" (p. 157). The clash of opinions in religion, as in politics, must be actively sought, not shunned.

Lasch effectively attacks Mann's assumption that a group of experts possesses some body of non-controversial knowledge about values that requires no debate, but a few features of his treatment stand open to challenge. First, his criticism of Mann stops short. He attacks Mann's view of morals and religion for being bland but fails to raise a more fundamental question: was Mann right?

Is there a core set of beliefs common to all Christians, or more generally, to all religious believers? If there is not, the claim that one has reached some noncontroversial "essence of Christianity," in Harnack's phrase, is itself sectarian propaganda of a particularly insidious sort. Mann had a distinct religious agenda, as R.J. Rushdoony has ably discussed in *The Messianic Character of American Education*. Lasch wants popular debate, which he takes to be the basis of democracy, but what about truth?

Lasch would no doubt reply that I have posed the wrong question. He agrees with the great American pragmatist John Dewey that there are no absolute foundations for knowledge. "[I]t is impossible, at this late date, to resurrect the absolutes that once seemed to provide secure foundations on which to build dependable structures of thought. The quest for certainty . . . was misguided to begin with" (p. 13). The truth that there are no truths, the certainty that all is uncertain: I cannot think that this is the formula for vibrant public debate or the cure for rootlessness among the elites.

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A similar mixture of insight and misguided relativist assumptions is elsewhere in evidence. Lasch rightly criticizes the view that religion is a nostalgic myth, inappropriate for the present more developed age. Yet Lasch once more ignores what to my mind is a more basic question. Is religion true? Whether religious belief has good or bad consequences does not tell us. I suspect that Lasch would not have welcomed this query.

But the question of truth arises once more, at the very heart of Lasch's argument. He vigorously indicts the professional classes for weakening public debate. His criticism of Walter Lippmann's contrast between the uninformed public and the elite who are alone fit to rule is powerfully argued. But Lasch fails to ask himself: why is it a conclusive point against a view that it impedes public debate? Why is debate by the public, or public self-government, the highest good? Is this claim self-evident; if not, what is its foundation?

To echo Lasch, the failure to address this question has serious consequences. He asserts: "Luxury is morally repugnant, and its incompatibility with democratic ideals, moreover, has been consistently recognized in the traditions that shape our political culture. The difficulty of limiting the influence of wealth suggests that wealth itself needs to be limited" (p. 22). Thus, Lasch supports extensive government interference in the market because he fears the effects of wealth on democracy. But why democracy? Unless he can answer, his argument hangs in the air. ❖

Beyond the Beltway With Burnham

BEAUTIFUL LOSERS:
ESSAYS ON THE FAILURE OF AMERICAN CONSERVATISM
Samuel Francis
University of Missouri Press, 1993.
x + 237 pgs.

The heart of Samuel Francis's brilliant criticism of contemporary American conservatism is found in his essay "The Other Side of Modernism," included in the present collection. Most conservatives, he claims, whether libertarian or traditionalist, condemn the Left from an absolutist moral point of view.

Modernism, which holds that "[h]uman knowledge can be only empirical; moral statements can be only relative or factual . . . and human action cannot be modeled on transcendent or spiritual goods that either do not exist or cannot

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be known" (p. 131), thus ranks for most traditionalists as a stance to be utterly repudiated.

James Burnham, best known for *The Managerial Revolution*, broke with traditional conservatism precisely at this point. He agreed with the modernist denial of absolute values, yet arrived at a conservative position nonetheless. In his 1943 work *The Machiavellians*, Burnham viewed politics as the struggle of competing elites for power. The appetite for power could be restrained only through "a balanced distribution of power among various social and political forces that mutually checked the power of each other" (p. 133). (So exact is Francis's knowledge of Burnham that he cites differences in wording between the 1963 reissue of *The Machiavellians* and the original edition.)

Instead of mere reflection on ideas, the Right needs to grasp the realities of power. The failure of the Right to do this has rendered it vulnerable to takeover by liberalism and the managerial elite it represents: it is for this reason that Francis terms the American Right "beautiful losers."

Francis's analysis, in its penetration and power, brings to mind Burnham's provocative comparison in *The Machiavellians* of Dante's *De Monarchia* with *The Prince*. And the reservations I have about Francis's account closely resemble the doubts I had when reading Burnham.

Dante may well have had an unrealistic view of Italian politics. But does this follow just from the fact that he attempted to sketch out an ideal Christian political regime? Whether there are absolute values is one thing; whether these values are thought to operate in history as "an unearthly ballet of bloodless categories" independent of power and interest is quite another. Why must one adopt a "modernist" attitude toward values in order to count as a realist?

But this criticism in fact points to a strength of Francis's (and Burnham's) position. Even if one rejects the modernist account of values, one can still recognize the force of Francis's point that the realities of power cannot be ignored. Even moral absolutists need to be concerned with interest and power—at any rate, if they care about giving effect to their ideas.

And I am inclined to the view, on second thought, that I have underestimated Francis's subtlety. Although he writes with apparent sympathy for Burnham's modernism, and seems critical of traditionalists, I cannot find any explicit profession by him of the modernist creed. It would not be surprising if it turns out that this ironist has baited a trap for prospective critics.

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If one heeds Francis's advice and looks at the realities of power in contemporary America, what do we find? Francis adopts Burnham's famous thesis of a "managerial revolution." Developments in science and technology, along with the attendant growth of large corporations, have in the 20th century made old-fashioned capitalism, based on small business, obsolete. Nowadays, managers and a technical-scientific elite control the economy.

Liberalism expresses the interests of this managerial elite. Those who wish to counter liberalism, cannot proceed effectively by appealing to the same groups whose interests liberalism serves.

Instead, the Right must seek to lead another social class: "Abandoning the illusion that it represents an establishment to be 'conserved,' a new American Right must recognize that its values and goals lie outside and against the establishment and that its natural allies are not in Manhattan, Yale, and Washington but in the increasingly alienated and threatened strata of Middle America. The strategy of the Right should be to enhance the polarization of Middle Americans from the incumbent regime, not to build coalitions with the regime's defenders and beneficiaries" (p. 230). On this basis, Francis dissects the neoconservatives, who, he shows, are not allies of the Right, but its enemies.

The Right, says Francis, needs to grasp the realities of power.

Those whose economics has been shaped by the Austrian School will not look with complete favor on the managerial revolution thesis. In the standard Austrian view, supported by much contemporary work on the problem of agency, capitalists control corporate managers through the stock market and the market for firms. But Francis's analysis survives even if parts of the scaffolding on which it rests are kicked away.

So long as one agrees that there is a managerial class whose interests liberalism represents, why need one hold that this class controls the economy in order to oppose liberalism? The prospects for wresting control of the political system from the liberal elite seem better if in fact they do not dominate the economy as well. Nevertheless, one can also accept the thesis of managerial dominance, if so inclined, while remaining true to Austrian economics. To do this, all one need do is drop the assumption that technological developments

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made managerial supremacy inevitable. Perhaps the managerial elite assumed control owing to contingent political events (such as regulation in securities markets).

Indeed, Francis's analysis seems much better off without an inevitable managerial revolution. If technological developments make necessary control by a managerial elite, what can an elite that rests on Middle American Radicals hope to accomplish? Perhaps it can destroy the existing elite, but will not the same technological developments that in the first place gave us the managers reinstate them? If it is replied to this that a new managerial elite need not adopt liberalism, how tight is the postulated connection between the presently existing managers and liberalism? Perhaps they did not have to adopt liberalism either.

Francis's book is packed with penetrating observations, such as the connection he draws between environmentalism, the view "that human beings are perceived as the products of their social and historical environment rather than of their innate mental and physical natures" (p. 213), and the progressivist ideology.

Francis's book ranks among the most skillful dissections of contemporary conservatism to appear in many years. Francis's originality and keen analytical powers make his book essential reading. ❖

Toward an Austrian Politics

THE PHILOSOPHY OF THE AUSTRIAN SCHOOL
Raimondo Cubeddu
Routledge, 1993. xiv + 269 pgs.

Raimondo Cubeddu approaches Austrian economics from an interesting angle. He asks: what implications does it have for political theory? The author has carried out his investigation with extraordinary attention to detail, and readers cannot fail to benefit from his insights and prodigious research.

Like Leo Strauss, on whom he has written an earlier work, Cubeddu contends that political theory in the 20th century is "an outcome of positivism, historicism, and irrationalism" (p. 204). Since man has no fixed nature, power, not discovering the good, lies at the essence of modern politics. But unlike Strauss (as commonly interpreted), he does not urge a return to classical political philosophy. He thinks that Austrian economics provides an internal criticism of the modern position. Not philosophy, but economics, now limits political action.

As an example of his grasp of his subject, he places in context the

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debate over the "interpretive" method within the social sciences. He sees it as part of the Austrian School's long struggle against historicism. For Cubeddu, the German philosopher of science Hans Albert in this instance speaks for the Austrian tradition: Albert "defined the hermeneutic type of *Historismus* as a new form of *German ideology*, nothing less than 'the attempt to extend the model of external analysis to reality in general, and to hold up the speculative style of theology as a philosophical ideal'" (p. 34).

The methodological individualism characteristic of the Austrian School of course stems from Menger, but what gave Menger the idea? Cubeddu finds evidence of Aristotelian influence, and quotes a very Mengerian passage from Aristotle's *Politics* to make his point: "As in other departments of science, so in politics, the compound should always be resolved into the simple elements or least parts of the whole. We must therefore look at the elements of which the state is composed" (p. 79).

Cubeddu's keen sense of historical context appears to good effect in the chapter "The Fate of Democracy." One of Hayek's prime insights in political theory put him at odds with his leftist contemporaries: his skepticism about democracy. "The 'great tragedy' of democracy thus consisted in the fact of its having entrusted the single assembly with the power both of controlling the government and of establishing what should be considered as 'law'" (p. 177). Hayek rejected the view that the people (or those who claim to act in their name) may enact whatever laws they wish; totalitarianism, not freedom, results from this sort of democracy.

Hayek's polemic, Cubeddu makes clear, had as a principal target the Austrian legal theorist Hans Kelsen. To Kelsen, law was a formal science; the legislator need observe no substantive limits on his power. The contrast Cubeddu draws between Hayek and Kelsen illuminates the thought of both writers. He also offers a carefully nuanced treatment of the differences between Mises and Hayek on democracy.

One final instance of Cubeddu's historical insight must suffice. Mises's criticism of socialism, he maintains, was not confined to exposure of its faulty economics. "The main objective that Mises set himself [in *Socialism*] was to underscore that *the* central nucleus of socialism was a theory of the salvation and redemption of man, which included both ethical and material aspects" (p. 117). In viewing socialism as a secular version of heretical religious ideas, Mises's work was an important precursor of the work of Eric Voegelin, a fact Cubeddu does not

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The scope of Cubeddu's argument, with its impressive citations and accompanying bibliography of Austrian literature, reminds us that the Austrian School is no longer living at the subsistence level as it was 20 years ago.

fail to note. It is no coincidence that Voegelin attended Mises's private seminar.

Let us return to Cubeddu's main project. It is usually said that economic theory has no necessary implications for political theory. Economics is a value-free science, while politics depends on individuals' judgments. Though economics may help the policymaker carry out his plans, it cannot tell him what those plans should be. Cubeddu sharply dissents from this commonly held position. In the end, however, I do not think this argument fully succeeds.

Cubeddu effectively illustrates the Austrian contention that economic law limits politics. Contra Kelsen and other modernists, the state cannot do whatever it wants. And this criticism is internal to modernism, since it assumes nothing about absolute values. But Cubeddu goes farther: he uses Austrian economics to argue against classical political theory. Cubeddu proceeds in this way: according to Austrian economics, value is subjective. The prices at which goods are traded in the market depend on the preferences of consumers: supposed objective measures of a good's true worth count for nothing. But this has clear implications for any political theory based on a notion of objective good.

The object of Mises's and Hayek's inquiry, Cubeddu writes, "encompassed not only man's limitations in discerning the 'good' and striving to achieve it, but also the concept of 'good' itself, analyzed penetratingly and highly critically in terms of the *theory of subjective values*. In other words, one can find fault with the concept of 'common good' in politics, just as one can attack the classical concept of *value* in economics. Therefore the concept of *political order* founded on the so-called 'common good' appears to be untenable" (p. 35).

But it does not follow that because economics confines itself to subjective preferences that there are no objective values. Mathematics does not deal with the common good either: this hardly shows there is no such thing.

An analogous point applies to another of Cubeddu's contentions. A *leitmotif* of the Austrian School is methodological individualism:

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only individuals act, and collective entities must be analyzed in terms of the individuals who compose them. Theories that take society or the state to be independently existing collective entities must be cast out. Once more, why does the fact that economics recognizes only individual actors settle the matter for other disciplines?

Cubeddu addresses the objection I have raised in one passage, but his response seems unconvincing. He suggests that the primacy accorded to individuals pursuing subjective ends in Austrian economics "implies a theory of human action which must be not only methodological but also philosophical-systematic, so that it may provide an answer to the question as to the nature of society" (p. 81).

If so, Cubeddu recognizes, the theory may be criticized "in the light of an ethical principle"; but such criticism would mean "endowing ethics with a predominance over politics and economics that may not be shared by other thinkers" (p. 81). But the criticism in question need not tell economists to use some other notion of value than the subjective one. Why, then, must it be taken as making a claim to "predominance" over economics?

Cubeddu's book nevertheless is valuable, a judgment I hope is not merely the expression of subjective preference. The scope of his argument, with its impressive citations and accompanying bibliography of Austrian literature, reminds us that the Austrian School is no longer living at the subsistence level as it was 20 years ago. Yet the book is best read not only as a systematic work, but for its incidental remarks and references. Here Mies van der Rohe is right: God is in the details. ❖

Lost in the Move?

AUSTRIAN ECONOMICS IN AMERICA: THE MIGRATION OF A TRADITION
Karen I. Vaughn
Cambridge University Press, 1994.
xiv + 198 pgs.

I closed Karen Vaughn's *Austrian Economics in America* with a sense of disappointment. In several ways, as it seems to me, it fundamentally misconceives its topic.

Vaughn has revisited a common query: what is the task and scope of Austrian theory and what direction should it take in the future? Unfortunately, Vaughn's response to the latter part of the question biases her entire presentation. To her, a group of friends and colleagues she knows by virtue of professional proximity lies at the center of the contemporary Austrian School. She reads the history of the School backwards: whatever leads to the

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distinctive concerns of her group is stressed; whatever does not is slighted or downplayed.

She sets the stage with a chapter on Carl Menger, the founder of the Austrian School. She maintains that Menger did not primarily concern himself with equilibrium prices, in the style of the neoclassical school. "His theory of value . . . was embedded in a larger attempt to answer what was basically Adam Smith's question: what are the causes of the progress of the wealth of nations? He identified the source of progress as man's increasing knowledge of the causal connection between goods and human needs and showed how it was brought about by the active efforts human beings take to satisfy their requirements" (p. 33).

Here the danger of a false step arises. She emphasizes, following Erich Streissler, that Menger thought the process of adjustment to "real needs" long and drawn out; and, in this sense, she quite correctly says that he did not believe the economy was likely to be in equilibrium. But the notion of equilibrium she here uses, adjustment of prices and quantities of goods to the "real needs" of consumers, differs fundamentally from a more common use of the concept.

In that use, the economist is concerned with actually existing consumer preferences. Are these preferences, to a large degree, satisfied on the market; or, on the contrary, are there substantial maladjustments that cannot be readily rectified? From the fact that preferences change, we cannot say that the market fails to satisfy whatever preferences at a given moment obtain.

Here, I am using equilibrium in a common-sense way rather than to designate Walrasian general equilibrium, the "final state of rest" or the "Evenly Rotating Economy." Very roughly, I mean that markets tend to clear and that the market economy is not seriously out of kilter.

Anyone not foolish enough to believe that consumers' real needs have been fully met counts as a non-equilibrium theorist in the sense that Vaughn attributes to Menger. However, she never shows that Menger rejected equilibrium in the plainer sense that the market fails accurately to reflect consumer tastes. Indeed, Vaughn fails to distinguish these two senses at all.

This failure leads to what is in fact the chief strategy of the book. She claims, in effect, that since Menger rejected equilibrium (sense one), and since he founded Austrian economics, true Austrian economics is by definition a non-equilibrium theory, stressing "the importance of knowledge, time, and process" (p. 36). Thus, economists who accept equilibrium (sense two) such as Mises and Rothbard, are less truly Mengerian, hence

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Austrian, than Ludwig Lachmann, Menger's rightful heir, who rejects it. And readers should have no trouble guessing Lachmann's heirs and assigns.

Vaughn holds that Mises and Rothbard are less truly Austrian than Lachmann.

Further, she fails to distinguish "common-sense" equilibrium (sense two) from Walrasian general equilibrium (sense three). Those who accept the former (again Mises and Rothbard) are covertly neoclassicals, since the study of general equilibrium (sense three) is the *fons et origo* of neoclassical economics.

Before she comes to that neoclassical backslider, Ludwig von Mises, Vaughn looks briefly at Eugen von Böhm-Bawerk. She rightly notes that Böhm-Bawerk "showed that there was a fatal contradiction in Marx's critique of capitalism." But her account of that contradiction is surprising. She states the problem this way: "it could not be the case both that goods would exchange at labor values in the long run and that the returns from capital in all occupations would be equalized at the same time. . . . Since Marxian theoretical proposition was at odds with fact, his system had to be incorrect" (p. 39).

This totally misses the point. Marx knew full well, and agreed with Böhm-Bawerk, that goods did not exchange at their labor values in the long run. So too, as a Ricardian, Marx agreed that there were equal returns to capital across industries. Marx took upon himself the task of explaining how this apparent contradiction of the labor theory of value could be made consistent with it. Böhm-Bawerk's deadly blow was to show that Marx's attempted reconciliation utterly failed.

In Vaughn's superficial version, the agreed-upon problem has itself become the Böhm-Bawerkian critique. Böhm-Bawerk is of little account, though; he cannot be readily portrayed as a proto-hermeneutician who leads to her chosen project.

Vaughn rightly stresses that Mises's seminar at New York University was at the center of Austrian economics in America and pays tribute to "the creativity of his mind and the breadth of insight he brought to economics" (p. 65). But it is difficult to avoid the feeling that Mises does not rank among her favorites: too much of his work, in her view, merely rang the changes on familiar neoclassical themes.

In her discussion of Mises, she makes a number of dubious assertions. She gives this account of Mises's

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method: "Praxeology is an axiomatic system that has as its ultimate given that human beings act . . . from this axiom all of economic theory can be deduced" (p. 65). Not at all! Mises admitted in economics subsidiary postulates that are not *a priori*. Obviously, the theorems of economics that use these subsidiary postulates are not themselves *a priori*.

Vaughn knows this but, oddly, treats the use of non *a priori* statements as a difficulty for Mises. "However, Mises does not deduce all of praxeology from the action axiom. He slips in subsidiary statements that can only be viewed as hypotheses and not certain truth" (p. 77). But Mises does not "slip these in"—they are explicit parts of his system. Vaughn first misstates Mises's position and then triumphantly finds a contradiction in it. And why does Vaughn believe that the subsidiary statements cannot be certain? Are *a priori* truths the only certain ones? So that, for example, "there is a variety of goods and services" is a mere conjecture?

On Marx and Böhm-Bawerk, Vaughn totally misses the point.

Further, Vaughn displays an unsure hand in this: "If he [Mises] could establish that praxeology follows inexorably from the action axiom and *if he could convince us that there is no other possible starting point for understanding human action* then we would have to grant the certainty of praxeological laws and their ability to give us knowledge of real things" (p. 77, emphasis added).

Mises did indeed believe that the action axiom is the only possible starting point for economics. But why must he prove this in order to make valid deductions? If praxeology starts from correct postulates and draws from them valid conclusions, surely that suffices. Why must one have some sort of meta-proof that one's axiom is the sole possible point of origin?

Mises's sins, in Vaughn's view, were not confined to methodology. He wrongly claimed "that monopolists will only restrict supply and charge a monopoly price if the elasticity of demand is less than one. . . . It is a matter of simple analysis that *no* producer facing a downward-sloping demand curve will charge a price in the inelastic region of the demand curve" (p. 85, emphasis added).

Elsewhere, though, she says: "Rather than presuming that Mises was incorrect in his analysis of monopoly, however, Rothbard shows a case in which Mises's analytics make sense. Rothbard began by

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assuming a fixed supply of some commodity and then showed how a monopolist would only raise prices if the competitive price fell in the inelastic region of the demand curve" (p. 96). Vaughn's two statements cannot both be true.

Murray Rothbard is yet another eminent Austrian who failed to carry out adequately Menger's revolution. His great treatise *Man, Economy, and State* will seem to "a typical reader . . . more or less familiar economics presented almost exclusively in words. The familiarity is undoubtedly the consequence of Rothbard's underlying assumption about the organizing principle for understanding market interaction, his concept of equilibrium" (pp. 96–97).

Here we have a prime instance of the confusion to which I earlier drew attention. Because Rothbard thought that markets in the usual case adjust to consumer preferences quite readily, Vaughn thinks of him as virtually a neoclassical equilibrium theorist. "Just as in conventional neoclassical economics, general equilibrium, . . . was the direction in which the economy was headed" (p. 97).

Vaughn has not understood the counterfactual conditional at issue: the final state of rest is the direction the economy *would* be heading if, as they never do, the data remained constant. It is not just for Rothbard "unlikely that an economy would ever achieve the ERE" (p. 97); "no such position is *ever* reached in practice" (*Man, Economy, and State*, Auburn: Ludwig von Mises Institute, p. 275, emphasis added).

Vaughn's assault on Rothbard extends beyond his economics. He was a dogmatist, who at the famous South Royalton conference of 1974 would brook no dissent from Mises. Here I cannot but wonder whether Vaughn's remarks are colored by resentment at some imagined slight (p. 108, esp. n. 20). She pictures Rothbard as going to inordinate lengths to avoid the admission that Mises erred in his discussion of monopoly price. Yet Rothbard's treatment culminates in a rejection of the entire concept of monopoly price on the free market as illusory, in complete contrast with Mises (*Man, Economy, and State*, pp. 604 ff). And has Vaughn ever examined Rothbard's sharp criticism in *Ethics of Liberty* of Mises's utilitarianism?

Vaughn does not reject "neoclassical" tendencies in Austrian economics as without value. Quite the contrary, she thinks they serve a very useful function in criticism of mainstream assumptions. In this regard, she singles out Kirzner's theory of the entrepreneur for high praise. But if we aim at a greater role for Austrianism than a mere supplement, she says, we must go elsewhere.

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Vaughn regards Ludwig Lachmann as Menger's rightful successor. Lachmann realized that "one can never 'see' into the future; one can only imagine and conjecture, interpret the present, and form expectations about the future" (p. 152). Accordingly, he cast out equilibrium from economics. How could we know that the market will successfully adjust to the changing preferences of consumers? These lie in the future, which, as Lachmann has repeatedly said, is unknowable.

Suppose that no two minds are completely alike: how does this have any bearing on whether the future is predictable?

But *why* is future choice unknowable? "The reason . . . Lachmann would argue, is that no two minds are alike; neither in the bits of knowledge they contain or in their method of interpreting the information they receive" (p. 153). Here I confess to complete bafflement. Suppose that no two minds are completely alike: how does this have any bearing on whether the future is predictable? Presumably the problem of dissimilarity does not arise if I confine myself to my own mind: can I then predict my own future choices? The argument attributed to Lachmann is worthless.

In spite of her praise of Lachmann, Vaughn acknowledges that "one cannot help but feel that he has taken a tour of individual trees and missed the forest" (p. 160). He failed to arrive at a theory of market process and left the role of institutions not fully clear.

But all is not lost. Building on Lachmann's insight that we cannot know the future, a younger group of economists—again, professionally associated with her—aims to elucidate what Lachmann was able to see only imperfectly.

Vaughn cannot specify the group's theories in detail. After all, these lie largely in the future, and the future cannot be known. Will some yet-to-be-conceived-of evolutionary economics offer the key to the mystery? A "progressing healthy Austrian research program," she offers, will involve "a total rethinking of economic policy from the perspective of pattern coordination" (p. 176).

Vaughn's discussion makes apparent that Lachmann had no sound basis for his signature tune, the "radical" uncertainty of the future; and his successors in the Kingdom of Darkness, as Hobbes would call it, have done no better.

It does not of course follow that one *can* foresee the future; but I venture one prediction of my own. Progress in Austrian theory will

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come not from our self-styled radical subjectivists but from theorists who know that human action consists of more than chaos, and economics more than the words "uncertainty," "subjectivism," "evolution," etc. to be repeated in endless litany, like a Tibetan lama spinning his prayer wheel.

Vaughn's criticism of Austrian economics leaves pure theory, and its foremost practitioners Mises and Rothbard, untouched. When you strike at a king, you must kill him. ❖

Post-Charlatanism

"ECONOMIC CONSEQUENTIALISM AND BEYOND"
Jeffrey Friedman
Critical Review, Fall, 1994. pp. 493–502.

The first part of Jeffrey Friedman's piece, an account of the stages in the intellectual evolution of *Critical Review*, led me to have hope for him and his journal. I do not regularly see *Critical Review*, but I had the strong impression it was a central organ for the promotion of hermeneutics in Austrian economics, a postmodern movement with which I am not entirely in sympathy.

But this, it appears, lies in the past. The "inadequacies of postmodernism became apparent" (p. 493); among these are its "self-undermining relativism" (p. 494). Having abandoned the postmodern, is Friedman now ready to enlist under the banner of Mises? Perhaps a merger of *Critical Review* with *The Review of Austrian Economics* is in the offing.

But, it appears, my usual optimism and inability to criticize blinded me. Friedman finds in the failings of postmodernism renewed proof of the flaws of "contemporary classical liberalism."

In particular, classical liberalism suffers by comparison with the left. "The difference between classical liberalism and the left is that the latter takes seriously the egalitarian premises implicit in the former. By shying away from the Stirnerite apotheosis of freedom for only one or a few individuals—instead embracing equal freedom for all—classical liberalism naturally leads to attempts to actualize freedom by redistributing the resources individuals need to freely pursue their projects" (p. 495).

What exactly does Friedman have in mind by egalitarian premises? If he means that everyone has the right to be free, how does this lead to equal distribution of resources? Why cannot one have equal freedom understood in a classical liberal way? So eminent an

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intellectual historian as Friedman will no doubt be able to identify the pedigree of the "law of equal freedom." Or is Friedman's point that equal freedom amounts to little or nothing without the resources to "actualize" it? But that is simply the usual leftist complaint against classical liberalism, not a natural development of it.

Libertarianism, says he, suffers from another failing: "its aprioristic approach to the nature of the state" (p. 495). To remedy this defect, *Critical Review* embarked on its second stage, "postlibertarianism." In this stage, Friedman and his fellow ex-libertarians sought "to investigate the effects of capitalism on 'the good'" (p. 496). He and his associates "experienced the characteristically liberal contradiction between apriorism and consequentialism . . . and have chosen consequentialism" (p. 497).

Here once more Friedman baffles me. Why is it inconsistent to think that an *a priori* argument rules out state intervention and at the same time think the consequences of intervention bad? I should have thought it a strength of a view that two converging lines of argument support it.

Perhaps the "contradiction" is that the consequences of state intervention might turn out to be good, but our benighted classical liberal will still find himself committed to his *a priori* argument against the state. But it is not contradictory to think that something with good consequences is wrong; and in any case, why should the mere possibility that state intervention have good consequences be supposed even to raise a problem, let alone generate a contradiction? Isn't it enough that the consequences of intervention be *in fact* bad?

But the *Weltgeist*, incarnated in Jeffrey Friedman, has moved on. *Critical Review* has now reached the Third Stage, postliberalism. Economics alone, those who have reached this level realize, cannot "compare all the consequences of different social systems" (p. 498). In particular, various social systems must be compared to determine the degree of happiness they are apt to generate.

We await with eager interest the results of such inquiry. Friedman offers us one preview of his rigorous analysis: "as the mere ability to choose either goods or evils, it [freedom] cannot be considered *intrinsically* good" (p. 498). But why can't one of the intrinsic goods just be the ability to choose other intrinsic goods? Or, for that matter, the ability to choose non-intrinsic goods?

Having sampled Friedman's skill in philosophy, readers will have no difficulty in imagining a fourth stage of *Critical Review,* for which we must hope. ❖

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